MOTION FILED

APR 4 1988

Nos. 86-495, 86-624 and 86-625

IN THE

Supreme Court of the United States

OCTOBER TERM, 1987

UNITED STATES OF AMERICA, *et al.*,
K MART CORPORATION and 47TH STREET PHOTO,
Petitioners,

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, CARTIER, INC., and CHARLES OF THE RITZ GROUP, LTD.,
Respondents.

On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit

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MOTION OF RESPONDENTS FOR LEAVE TO FILE SUPPLEMENTAL BRIEF AND SUPPLEMENTAL BRIEF FOR RESPONDENTS ON REARGUMENT

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MOTION OF RESPONDENTS FOR LEAVE TO FILE SUPPLEMENTAL BRIEF

Respondents move for leave to file, in advance of the reargument of this case on the merits, the supplemental brief that accompanies this motion. The brief comments upon intervening decisions of this Court as they bear on the issue of statutory construction that the case poses and on certain of the arguments advanced in petitioners' reply briefs.

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SUPPLEMENTAL BRIEF FOR RESPONDENTS ON REARGUMENT

INTRODUCTION AND SUMMARY

The Customs Service's interpretation of Section 526 of the Tariff Act of 1930 falls outside the *Chevron* test for deference to an agency's interpretation of its statute as that test has been applied in two opinions of this term, *ETSI Pipeline Project* v. *Missouri*, Nos. 86-939 and 86-941, decided Feb. 23, 1988, and *NLRB* v. *United Food and Commercial Workers Union*, No. 86-594, decided Dec. 14, 1987. There is no more reason in this case than there was in *Gwaltney of Smithfield* v. *Chesapeake Bay Foundation*, No. 86-473, decided Dec. 1, 1987, slip op. at

6, for disregarding the carefully considered terms of a statute, in this case Section 526, which was debated, amended on the floor and in conference, and enacted in 1922, and considered in committee, debated, and again considered in conference and reenacted in 1930. No overriding trademark principle of "first sale" or "exhaustion" justifies the Customs Service's disregard for the terms of the statute in its regulations interpreting Section 526; the record shows that the distinction the regulations draw between those exclusive United States distributors of foreign products that are entitled to the protection of Section 526 under the Customs Service regulations and those that are not is a purely formal distinction without grounding in the policy considerations urged by petitioners. Finally, the Customs Service has been both belated and inconsistent in drawing the distinction that it now draws, in contrast to the contemporaneous and consistent NLRB interpretation of its statute held entitled to judicial deference in *United Food Workers*.

ARGUMENT

1. Two unanimous decisions of this term illustrate the application of the *Chevron*[1] test for deference to an agency's construction of a statute it administers. The Customs Service's interpretation of Section 526 of the Tariff Act of 1930 fails when the test is applied to it. It fails because congressional intent is expressed as clearly in Section 526 as it was in the provisions of the Flood Control Act of 1944 that governed the decision in *ETSI Pipeline Project* v. *Missouri*, Nos. 86-939 and 86-941, decided Feb. 23, 1988, and that clear expression is "'the end of the matter,'" foreclosing the agency's contrary view. Slip op. at 21. And, if the Customs Service interpretation is not thought thus to fail at the outset, it still fails the test because, unlike the contemporaneous,

[1] Chevron U.S.A. Inc. v. Natural Resources Defense Council, 467 U.S. 837, 842-44 (1984).

consistent and long-standing regulations of the Labor Board at issue in *NLRB* v. *United Food and Commercial Workers Union*, No. 86-594, decided Dec. 14, 1987, slip op. at 10-12, the belated and inconsistent Customs Service regulations interpreting Section 526 do not embody a permissible, rational interpretation of the statute.

It remains true that no way has been found to rationalize the words of Section 526 with the agency's interpretation of them—short of inserting by main force words into the statute that do not belong in it (*see* Gov't Reply Br. 15 n.14). 47th Street Photo attempted a rationalization in its opening brief. It said that a trademark is not "owned," within the meaning of Section 526, by a "corporation . . . created or organized within . . . the United States" and is not registered by a person "domiciled in the United States" when the owner and registrant is a corporation affiliated with a foreign manufacturer. (47th St. Photo Br. 19-22.)

That was not persuasive even as to the foreign manufacturers and their subsidiary distributors incorporated in the United States since Congress could have written a more stringent definition of corporate citizenship (as it has in other statutes) but chose not to do so. (COPIAT Br. 21-22.) It was not even plausible as to an American manufacturer with a plant abroad, as COPIAT and amici American manufacturers pointed out. (*See id.* at 21.) 47th Street Photo therefore made a new attempt at rationalization in its reply brief. The new effort is a hopeless failure. To fit the case of the American manufacturer, 47th Street Photo urges that merchandise is not "of foreign manufacture," as required by Section 526, if it is manufactured abroad by an American company. (47th St. Photo Reply Br. 7-8.) The argument puts an unbearable strain on the statutory language. And, if that were not enough to dispose of it, one need only recall the manifested congressional understanding of Section 526 when it was repealed and reenacted in

1930. The Senate at that time debated whether to omit from the statute as originally enacted in 1922 the provision permitting merchandise of foreign manufacture bearing a trademark identical to a United States trademark to enter the country if the United States trademark owner's consent was given. It voted to delete the consent provision precisely in order to prevent United States manufacturers from building plants abroad. (COPIAT Br. 32-36.) The necessary premise of the Senate's debate and vote (and the House's rejection of the Senate's action) was that merchandise produced in American owned plants abroad was "merchandise of foreign manufacture."

The least that one can fairly expect of a party that urges legislative history as a reason for not giving statutory words their natural meaning is that the party tell us how the words can be made to convey the meaning for which it contends. Legislative history is supposed to illumine, not substitute. That minimal expectation is not satisfied by petitioners in this case.

2. A recurring theme of petitioners' briefs and reply briefs is that Section 526, as it was originally enacted in 1922, was "hastily drafted." (*E.g.*, Gov't Reply Br. 7; 47th St. Photo Reply Br. 8-10.) It was not. In *Gwaltney of Smithfield* v. *Chesapeake Bay Foundation*, No. 86-473, decided Dec. 1, 1987, the argument was made that the use of the phrase whose meaning was in issue was "a 'careless accident,' the result of a 'debatable lapse of syntactical precision.'" Slip op. at 6. The Court responded that the wording of the phrase "could not have escaped Congress' attention." *Id.* And so it is here. Nothing in the—actually quite lengthy—consideration of Section 526 justifies ignoring the terms in which the statute is cast.

Section 526 was debated in the Senate on August 19, 1922. 62 Cong. Rec. 11,602 (1922). Even by the account of Senator Moses, an opponent who characterized it as a "midnight amendment[]," it had originally been inserted into the bill more than two months earlier, before June 6, because he said it had been removed from the bill on that date. *Id.* According to Senator Sutherland, a proponent, the provisions of Section 526 had been recommended by the American Bar Association after careful consideration, and all of those provisions could be found in a report of the cognizant ABA section, *id.* at 11,603, suggesting an even longer period of gestation. After the debate on August 19, the Conference Committee made its report, which reflects further consideration of the section, nearly a month later, on September 14. H.R. Rep. No. 1223, 67th Cong., 2d Sess. 1 (1922). And that is to say nothing of the serious and prolonged consideration that Section 526 received before it was reenacted in 1930. (COPIAT Br. 32-36.)

Section 526 was amended on the Senate floor and again in conference in 1922 in response to comments offered during the Senate debate. (*Id.* at 29-31.) That is no indication of hasty drafting. It is just an illustration of the frustrating knowledge that belongs to anyone who has done any legislative drafting—that one never sees all the problems, however long a time one has to consider them.

3. A late-blooming idea of petitioners is that the Customs Service's interpretation of Section 526 accords with and may even be dictated by what the Government calls "a basic distinction that flows through all of trademark law." (Gov't Reply Br. 5; *see also* 47th St. Photo Reply Br. 13-14.) The distinction, in the Government's words, is that "a trademark owner has the right to prevent others from using his mark on *their* goods but does not have the right, merely by virtue of owning the mark, to limit the resale of his *own* goods once he has put them into commerce." The Government's principle of trade-

mark jurisprudence is derived from two decisions of this Court. (Gov't Reply Br. 5 & n.5.) These cases concerned the proper scope of a trademark owner's *remedy* for what was found explicitly in one case, *Champion Spark Plug Co.* v. *Sanders*, 331 U.S. 125, 126 (1947), and implicitly in the other, *Prestonettes, Inc.* v. *Coty*, 264 U.S. 359 (1924), to be trademark infringement resulting from the resale of goods the trademark owner put into commerce. It cannot be said on this authority that the trademark owner has *no* power to limit resale. The remedies for infringement approved by this Court, while they allowed purveyors of reconditioned spark plugs in the one case and of repackaged face powder and perfume in the other to use the original trademarks of the goods to state truthfully their source, required the purveyors, to avoid confusion and deception, to make clear that the goods were reconditioned or repackaged. 331 U.S. at 127-28 & n.3; 264 U.S. at 367, 368-69.

The Government and 47th Street Photo also rely on a page of a treatise on trademarks.[2] But at a different page in another section of the same treatise the author says that, because of the territoriality principle of trademark law and such factors as the differing nature of identically trademarked goods intended for different markets, one cannot simply "translate . . . into the international context" the domestic rule that the resale of a trademark owner's goods in their original form typically does not infringe the owner's mark.[3]

In fact, Section 526 as written comports with and furthers the two basic aims of the legal protection of trademarks: the prevention of consumer confusion and deception and the safeguarding of the trademark owner's

[2] 3A Callman, *The Law of Unfair Competition, Trademarks, and Monopolies* § 21.13, at 62 (Altman 4th ed. 1983 & Supp. 1987). (Gov't Reply Br. 5 n.5; 47th St. Photo Reply Br. 13.)

[3] *See id.* § 21.17, at 74.

investment in the goodwill of the owner's product.[4] If enforced in accordance with its terms, Section 526 would prevent consumer confusion and deception because (as a number of the amici briefs attest) gray-market goods intended for markets other than the United States are often not the same goods that United States consumers associate with the familiar trademark on them. And the sale of gray-market goods erodes the trademark owner's investment in goodwill because the gray-market seller takes a free ride on the expenditures for advertising, promotion, and pre-sale and post-sale services that produce the goodwill and promote the vigorous interbrand competition that yields for consumers an abundance of different goods at competitive prices.[5]

4. Petitioners assert that giving Section 526 its natural meaning exalts form over substance. They point out that the statute demands ownership of the protected United States trademark by a United States citizen or a United States corporation. Then they say that Congress could not have intended that the creation by a foreign producer of what they like to refer to as a United States corporate shell to own the United States trademark should make a difference in the applicability of the statute. (*E.g.*, 47th St. Photo Reply Br. 2.) The

[4] *See* H.R. Rep. No. 219, 79th Cong., 1st Sess. 2 (1945) (the House Committee report on the bill that became the Lanham Trademark Act of 1946).

[5] United States trademark owners, economists, and others testified in factual and theoretical detail to these anti-consumer effects of the gray market in *Hearings on Gray Market Imports Before the International Trade Subcomm. of the Senate Finance Comm.*, 99th Cong., 2d Sess. 29 (1986). *See id.* at 8-10, 16-23 (testimony of Robert H. Miller); 131-28 (testimony of Steven P. Kersner); 188-97 (testimony of Peter Thompson); 314-24 (statement of Christopher C. DeMuth). The hearings were held in 1986 to consider a bill, S. 2614, that essentially would have written the restrictive Customs Service regulations into Section 526. The full Senate Finance Committee rejected a similar measure on May 7, 1987, as part of its consideration of the current international trade bill.

truth is rather, on the record that was made in support of COPIAT's motion for summary judgment in the district court, that it is the Customs Service that acts on the basis of purely formal differences.

There may be some foreign producers that have mere corporate shells as their United States distributors, but they are not among the COPIAT members whose officials gave statements in support of the motion for summary judgment.[6] For example, the Michelin Tire Corporation, a New York corporation affiliated with the French tire company, operates five plants in the United States, and most of the tires it distributes in this country are manufactured in these and other North American plants.[7]

Moreover, two COPIAT members have fallen victim, in an especially vivid way, to the Customs Service's regard for the form of corporate relationships. E. Leitz, Inc., a Delaware corporation and the owner of the United States trademark for Leica cameras and binoculars, and Nikon, Inc., a New York corporation and the owner of the United States trademark for Nikon cameras, are both substantial concerns, with forces of salespeople and technicians, service centers, and large inventories. Before 1981 Leitz was owned by United States citizens and was the exclusive distributor for Leica products in the United States. Similarly, before 1981 Nikon was publicly owned and was the exclusive distributor of Nikon goods in the United States. Both were protected by the Customs Service pursuant to Section 526 against the unconsented importation of goods bearing their trademarks. In 1981 Leitz was acquired by the German manufacturer of Leica cameras and binoculars and Nikon by the Japanese manufacturer of Nikon photographic goods. There was no change in the way either did business. But each immediately began to suffer the inroads of gray-market products bearing its trademark because, under the Customs Service regulations, the formal change in corporate relationships made it ineligible for the protection afforded by Section 526.[8]

[6] These statements made under penalty of perjury are described in our main brief, p. 3 n.2.

[7] Statement of Pierre Valentin ¶¶ 2, 3.

There is no good policy reason for this difference in treatment based on the formalities of corporate relationships. The role of Leitz and Nikon in the "preferred distribution arrangements" of "multinational enterprise[s]" (*cf.* Gov't Reply Br. 1-2) did not change when their ownership changed. And if, as the private petitioners proclaim, intrabrand competition is desirable as a means of lowering prices to consumers, it is just as desirable against an exclusive distributor that is independently owned as it is against one that is a subsidiary. Furthermore, if, as those petitioners suggest, there is some antitrust problem with an exclusive distributor that is a subsidiary, surely that problem is of greater magnitude if the exclusive distributor is an independent party to the exclusive dealing arrangement, and there is the antitrust element of agreement. *Cf. Copperweld Corp.* v. *Independence Tube Corp.*, 467 U.S. 752 (1984).

In fact, COPIAT believes that there is no antitrust problem regardless of the relationship of the parties to the exclusive dealing arrangement, and that this is so because such arrangements foster vigorous interbrand competition, which is the true source of consumer benefits. *Cf. Continental T.V.* v. *GTE Sylvania*, 433 U.S. 36 (1977). Our point here is that the Customs Service's restrictions on the enforcement of Section 526 do not have, even on petitioners' premises, any policy content.

5. We have described the Customs Service regulations that narrow the apparently intended scope of Section 526 as "belated" and "inconsistent." (P. 3, *supra.*) That is a factual, not an argumentative, description. The only arguable issue is how belated and how inconsistent.

[8] Statements of Aaron Altman ¶¶ 2, 3, 4, 9; Jack M. Abrams ¶¶ 2, 3, 4, 12, 13.

Regulations were issued by the Customs Service contemporaneously with the enactment of Section 526 in 1922 and its reenactment in 1930. Those regulations of 1923 and 1931, written when, presumably, Customs Service officials were most closely attuned to what Congress really intended, did not suggest that Section 526 meant less than it said. (COPIAT Br. 41-42.) They gave no hint of the restrictive regulations of 1972. Petitioners assert that the first restrictive regulation was issued in 1936, 14 years after Section 526 was first enacted. We say that regulation was an interpretation not of Section 526 but of a section of the Trademark Act.[9] Even on petitioners' view of it, the 1936 amendment to the regulations of 1931 was an incomplete forerunner of the 1972 regulations. At the most that amendment withdrew the protection of Section 526 if the foreign trademark and the United States trademark were "owned by the same person, partnership, association, or corporation." (COPIAT Br. 42.) On its face, the amended regulation did not touch the petitioners' paradigm gray-market case of a foreign producer with a distributor/subsidiary incorporated in the United States. There is a suggestion in petitioners' papers that 1936 was a primitive time when such subtleties as parent and subsidiary and common ownership or control were not understood so that the reference to the "same . . . corporation" has to be taken broadly as comprehending different but related corporations. Nonsense. This was the time of New Deal legislation such as the Public Utility Holding Company Act, which lists every conceivable kind of corporate relationship to ensure that no lawyer's manipulation of corporate forms escaped the grasp of the statute. Pub. L. No. 333 (ch. 687) §§ 2(a)(7)-(10), 49 Stat. 803, 806-08 (1935);

[9] From its wording and the citation given to support it, it appears that the 1936 amendment related only to what is now Section 42 of the Lanham Act, and Congress was informed in 1944 that the amendment was so limited. (*See* COPIAT Br. 42-44.)

see also Glass-Steagall Act, Pub. L. No. 66 (ch. 89) § 2(b), 48 Stat. 162 (1933).

In *NLRB* v. *United Food and Commercial Workers Union*, No. 86-594, decided Dec. 14, 1987, the Court said that, in deciding what deference is owing to an agency's interpretation of its statute, "[w]e . . . consider the consistency with which an agency interpretation has been applied and whether the interpretation was contemporaneous with the enactment of the statute being construed." Slip op. at 10 n.20. In contrast with the Customs Service regulations at issue here, in that case the NLRB had adopted its interpretation of the statute in regulations that were contemporaneous with the enactment of the Taft-Hartley Act in 1947.

After 1936, things only get worse for petitioners' attempt to make out a case of long-standing, consistent administrative interpretation. In 1953, the regulation was amended to cover ownership by a "related company" as well as by the same company, but at the same time Section 526 was unmistakably deleted from the citation of authority for the amended regulation. (COPIAT Br. 44.) And during the 1950s Section 526 was being enforced against at least some gray-market French perfume that was manufactured by a French subsidiary of the American distributor and trademark owner.[10] Furthermore, the Solicitor General represented to this Court that the Customs Service thought itself obliged to enforce Section 526 as it was written against such gray-market perfume. (COPIAT Br. 45-46.) Finally, after the "re-

[10] United States v. Guerlain, Inc., 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated and remanded*, 358 U.S. 915 (1958). One of the *Guerlain* defendants was Parfums Corday, Inc., a New York corporation and the United States distributor of perfumes made in France by Parfumerie Internationale Corday, a French corporation. The United States Corday company owned 750 of the 800 shares of the French company, and 30 more shares were owned by the individual who owned the United States company and members of his family. 155 F. Supp. at 92-93.

lated company" restriction had been deleted in 1959 (and, at the same time, Section 526 had been reintroduced as authority for the less restrictive "same company" regulation),[11] the present regulations were issued without explanation in 1972, and later repudiated in 1983 by the chief counsel of the Customs Service in an amicus brief. (COPIAT Br. 47-48.)

To understate the point, there is in the Customs Service regulations neither the contemporaneity nor the consistency that the Court found in the NLRB's regulations in the *United Food Workers* case.

CONCLUSION

This Court's intervening decisions add weight to the argument for affirming the judgment below, and nothing in petitioners' reply briefs justifies any other decision.

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[11] To be sure, "related company" as defined by the Lanham Act and incorporated in the Customs Service regulations went beyond cases of parent and subsidiary and common ownership or control. *See* T.D. 53,399 (1953) (J.A. 55, 56); Trademark Act of 1946, § 45, 15 U.S.C. § 1127. But it included such cases, and there is no logic to the position that, after the reference to a "related company" was deleted, the reference to "same company" was meant to comprehend parent-subsidiary and common ownership or control.